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Criticism of Dr. A. B. Cox's Paper on: "The AAA, the Cotton Growers and the Agricultural Problem."

This article summarizes the statement by L. H. Bean, economic adviser, Agricultural Adjustment Administration, before the American Statistical Association on the paper by Dr. A. B. Cox, of the University of Texas, entitled "The AAA, the Cotton Growers and the Agricultural Problem", and presented before the Association at the annual meeting in December. Both Dr. Cox's paper and Mr. Bean's analysis will appear in a forthcoming issue of the Journal of the Association.

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Public discussions of the Agricultural Adjustment activities of 1933-1935 are useful in so far as they contribute to a clearer understanding of the major problems involved. It is doubtful if clear understanding can be promoted unless we first recognize the emergency situation of 1932-33 and the practical measures that the situation demanded. A second requirement is a clear understanding of the AAA objectives. A third requirement is an appreciation of the complex interrelations between prices, supplies, consumption, domestic and foreign demand with conclusions drawn from them that are the result of correct statistical and economic analyses. A fourth is adequate facts rather than guesses as to the effects on farmers and other groups; and a fifth requirement, perhaps more important than all the rest, is an unbiased attitude. Dr. Cox's paper on "The AAA, the Cotton Growers, and the Agricultural Problem" fails to meet these requirements.

Dr. Cox approaches his subject with an unmistakably biased unscientific attitude. I need only quote from the mimeographed copy of his paper which was distributed widely at the time it was delivered. In discussing the regional aspects of the agricultural program, he writes:

"It (the AAA) advises the cotton grower to use his surplus land to grow his own food and feed crops, the dairyman to grow his own feed, the corn belt feeder to put his surplus corn acreage into pasture, to grow his own feeder steers, and the ranchman to -- well, since he did not see fit to join the program -- to go to hell."

His principal theme is that the AAA has been an utter failure since the world gold price of cotton in December 1935 was about the same as in April 1933. In this part of his argument, Dr. Cox not only misreads the price objective of the Agricultural Adjustment Act but fails to appreciate that gold prices for basic commodities have been depressed by the world-wide devaluation of currencies.

The purpose of the AAA was not to raise world prices but to give farmers parity returns on domestic consumption and to let the balance of their production go at world prices. The higher price for domestically consumed production was to be given to producers in the form of benefit

payments. In the case of cotton, this price objective was actually attained. The farm price of cotton in 1934 including the price equivalent of benefit payments was 9 percent greater than the parity price and in 1935 it was 5 percent greater. 1/

Dr. Cox also misreads the objectives of the AAA in his references to planned curtailment of consumption. Consumption according to the Act was to be taxed, and processing taxes were not to be so large as to curtail consumption or cause stocks to pile up. As a matter of fact, the real consumption objective was to increase consumption by curtailing an excessive carryover, raising domestic prices and stimulating general business.

Like many others who have attempted to damn the AAA by showing that devaluation of the dollar was the chief factor in raising domestic cotton prices, Dr. Cox stops short in his gold price analyses without observing two important dilemmas. One dilemma is created by his argument that 13.4 million bales of cotton have been kept out of production by the curtailment programs. He does not raise the question, how much lower would cotton prices be now if that much cotton, equal to one full crop, were added to the present supply? Statistical analyses of cotton prices, such as Dr. Cox does not resort to, show that the addition of one million bales of American cotton to the carryover lowers prices by 3/4¢ to 1¢ per pound. Assuming that lower prices would have prevailed during 1933-35 without the control programs, possibly 5 million bales of the additional 13.4 million might have been consumed. This would leave about 8 million bales to be added to the carryover of the present season, making a world carryover of American cotton of 18 million bales or four to five times normal -- and cotton prices would probably be about 6 cents lower. The fact of the matter is of course that neither Dr. Cox nor anyone else knows how much cotton has been kept out of production, for no one knows what acreage reductions farmers would have made had the 17 million bale crop of 1933 been allowed to come onto the spot markets.

The other dilemma arises from the argument that the world gold price of cotton failed to rise in the face of curtailed production because of the expansion of foreign production and the "planned restriction of consumption of American cotton." If the world gold price has not been raised, whence comes the stimulus to foreign production? This problem suggests that the gold price does not now have the significance that Dr. Cox thinks it has and that the increase in foreign production is due to other factors that he has not taken into account. It is not the gold price of cotton but the currency price received by our farmers as compared with prices of other products that influences acreage, and it is not the gold price but the currency price of cotton goods relative to prices of other products that influences consumption. This is true of the foreign cotton producing and consuming countries as well.

Those who, like Dr. Cox, dismiss the effect of the AAA on cotton prices by referring to the low gold price fail to observe that cotton is not the only world commodity the price of which on a gold basis has remained practically unchanged. For example, the world gold price of wheat in Great Britain was only 6 cents higher in December 1935 than in April 1933, whereas the currency price was 41 cents higher. Dr. Cox cannot argue in this case that the

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1/ See report on Facts Relating to Cotton Prices and Purchasing Power by L. H. Bean, AAA, August 1935.

reduction in the U.S. has been offset by an increase in foreign production, as he does with cotton. In fact, wheat production outside the U.S. was also reduced by weather and the excess in carryover has been reduced from 500 million bushels to nothing. Such failures as these of gold prices to rise in the face of reduced supplies and increased demand are clear indications that the general world-wide devaluation of currencies has altered the significance of gold as a measure of value. The problem is more complex than Dr. Cox indicates.

Foreign production has expanded but the reason for it is not predominantly the AAA cotton program. This is revealed even by Dr. Cox's inadequate data and analyses. Dr. Cox presents an illustration showing an increase of 4 million bales of foreign production between the 1932-33 and the 1935-36 seasons. He does not point out that nearly 3 million bales of that increase occurred between the 1932-33 and the 1933-34 seasons, before the AAA program adopted in the summer of 1933 was announced. The 1933-34 foreign acreage was the result of price conditions of the previous season and of other preceding factors. According to Dr. Cox's data, only about one-fourth of the increased foreign production he attributes to the AAA occurred during the two years when the U.S. programs could have been responsible.

As a matter of fact, had Dr. Cox extended his illustration back to 1920 or earlier, it would have been clearer than in his chart from 1926 to 1935 that the recent increase in foreign production is only a continuation of a long-time persistent upward trend. One needs only project the prewar rate of expansion to see that without any AAA programs, foreign production would have attained the volume that was actually produced in 1935. Another proof of this contention is contained in statistical analyses of foreign cotton acreage which enable us to determine how much of the increase in acreage is due to the price of cotton and how much to all other factors, such as the relatively low prices of coffee in Brazil and of grains and other competing crops in India and Egypt. We find that foreign cotton acreage expanded from 1921 to 1925 for reasons other than cotton prices, and that another period of expansion due to factors other than cotton prices began immediately with the onset of the depression after 1929. Had cotton prices remained unchanged during the last six years and had there been no AAA programs, foreign acreage would have increased about as much as it actually did. Less than half of the increase in foreign acreage since 1933 can be attributed to the higher currency price of American cotton and part of that higher currency price is due to other factors besides the AAA programs.

Dr. Cox suggests that it should have been obvious from the beginning that foreigners would progressively increase production as the U.S. undertook to keep down supply. He fails, however, to recognize and to comment on the inevitability of that expansion regardless of what we did and to appreciate the necessity of helping the American cotton farmer and most of the other economic groups of the South cushion the shock of that expansion.

The other fact given by Dr. Cox for the AAA failure to affect cotton prices, the rapid increase in synthetic fiber production, is even more inaccurate. He calls attention to "the serious fact" that world rayon and

staple fiber production increased from 666 million pounds in 1933 to 775 million pounds in 1934 and then adds this entirely incorrect statement, "It is highly important to realize that the greatest increases have occurred since the beginning of the cotton restriction program in 1933." The increase between 1933 and 1934 was 109 million pounds but the increase of the previous year, before the AAA could have affected rayon production, was 139 million pounds. Furthermore, the increase between 1933 and 1934 was 16 percent and the previous increase was considerably greater--26 percent. The average annual increases in 1927, 1928 and 1929 of 28 percent and in 1923, 1924 and 1925 of 35 percent were also greater than the 1934 increase of 16 percent.

Dr. Cox looks upon the cotton problem chiefly in terms of volume, and fails to see that there is a mid-point between abundant production that periodically about wrecks the South and unwise scarcity programs. The AAA programs aimed at supplies more nearly in balance with demand conditions and eschewed the extremes of unwise scarcity and ruinous surpluses. A temporary curtailment of production to bring down a staggering carryover that kept prices low and business in the South close to a standstill in 1932-33, he considers is destruction of the processes of real wealth production. Over and over again the South, during the fifty years before the AAA, created "real wealth" in the form of bumper crops, and almost invariably these bumper crops gave the South and particularly the producers temporary economic set-backs. Actually, cotton farmers seldom realized "real wealth" from their bumper crops, the bulk of which went abroad at bargain prices or clogged up the economic machinery of the South in such a way as caused bank failures, increased indebtedness, and a perpetuation of low living standards. In 1926 cotton farmers produced "real wealth" in Dr. Cox's terms amounting to 18 million bales, a record crop, but received a gross return of about 500 million dollars less than in the previous year, and the cash left over after out-of-pocket expenses gave the average cotton producer a per capita purchasing power of only two-thirds of that of 1925 and two-thirds of his prewar standard of living. In 1931 the South again produced a large crop of 17 million bales. This time there was practically nothing left over after out-of-pocket expenses and the purchasing power per capita went down to about 12 percent of what it had been in 1925 and before the war.

After this sort of "real wealth" production, the South has invariably curtailed its production so as to restore economic life in the South. In 1927 they reduced their acreage by 15 percent, which together with a reduction in yields per acre brought about a larger gross and net income. All the other economic groups in the South profited from that improvement in values brought about by a curtailment in volume. Even those who depend on volume found they could move the large carryover from the 1926 crop much more freely at the higher prices of 1927-28 than at the low prices of 1926-27.

Similarly, in 1932 after the so-called real wealth of the large crop of 1931, farmers reduced their acreage and with reduced yields per acre only 13 million bales were produced. Even at the bottom of the depression in 1932 the income from the crop after out-of-pocket expenses was greater than the balance available from the large crop of 1931. On a small scale, in an

unorganized way, farmers demonstrated in 1932 the wisdom of restraining production to permit the enormous carryover to come down to normal proportions. The prospect of a reduction in carryover as a result of the smaller crop and the resulting lift in cotton prices that the smaller 1932 crop brought about during the last half of 1932, were chiefly responsible for the temporary improvement in industrial activity after July 1932. Cotton consumption increased as prices were stimulated by the restrained production; 260,000 people were put back to work in the textile industry between July and October 1932, and weekly pay rolls were increased 7.5 million of dollars. This was an increase of 35 percent in employment and 64 percent in pay rolls. In that brief period when the AAA programs were being conceived, farmers themselves had demonstrated the nature of the practical approach to the cotton problem in the emergency of 1932-33, that was to be put into operation more effectively under Federal stimulus in 1933-35 to help bring about economic revival in the South and other parts of the country. The majority of farmers and the business interests of the South and other parts of the country dependent on the South are aware of the economic activity that has sprung up since 1932, even though like economists, statisticians, politicians and others, they are unable to appraise the separate influences on that revival that should be attributed to AAA, monetary devaluation, or other Federal as well as private activities.

Dr. Cox's prejudiced, loose and inaccurate references to the AAA contribution to the unemployment and relief rolls of the South add more confusion than light. In one part of his paper he writes: "hundreds of thousands of people in the South have been forced on to relief rolls as a result of production restriction;" in another, he writes that it "has put millions of people on relief." It is of course true that the AAA dealt chiefly with production, but it attempted to prevent dismissal of tenants and share croppers by cooperating farmers, and it banked on the benefits to producers being generally distributed through the processes of trade, commerce and industry so that all groups of the South would share in economic revival. To what extent that was accomplished, cannot be determined. Dr. Cox, it is clear, does not have any comprehensive data on displacement from farms and contributions to unemployment and relief, nor does anyone else. In a recent report by the Bureau of Agricultural Economics on this question, at the request of the Secretary of Agriculture, the Bureau was unable to draw any general conclusions because a basis for such conclusions does not exist. Conclusions based on inadequate samples may serve journalistic purposes but they do not add to balanced understanding.

There are two sources of data that throw only partial light on this question of increased relief rolls and tenant displacement, the Federal Emergency Relief Administration and the Bureau of the Census. According to the reports of the FERA, the number of people on relief in August 1933 constituted 12 percent of the population. The relief load was also 12 percent in Texas, but 14 percent in Mississippi, 15 percent in Louisiana, 18 percent in Arkansas and Alabama, 20 percent in South Carolina and 27 percent in Oklahoma. This was the situation before the AAA programs of 1933, 1934 and 1935 could have had any effect on the relief situation. In August 1935 the relief load for the country as a whole, after increasing during 1934, was again 12 percent of the total population but it was relatively lighter

in the cotton producing states than in 1933. In the two-year period the percentage for Texas, where Dr. Cox says the relief problem is still a staggering one, fell from 12 to 10; for Mississippi from 14 to 8; for Louisiana from 15 to 10; in Arkansas from 18 to 11; in Alabama from 18 to 10; in South Carolina from 20 to 8; and in Oklahoma from 27 to 19.

The 1935 census data reveal some striking changes in tenure between 1930 and 1935, but it is impossible to determine from that source alone how much of these changes took place between 1929 and 1933 and how much during 1933-35. For ten of the cotton states there was a reduction of about 31,000 in the number of white croppers, but an increase of about 106,000 in white tenants other than croppers or a net increase of 75,000 in white tenants. In addition, there was an increase of about 96,000 in the number of white owner-operators. Among the colored farmers, there was a decrease in croppers amounting to about 22,000 and in tenants other than croppers of about 47,000 or a total decrease of 69,000. Unbiased students of the South believe that a very large part of this shift among the colored tenants took place during the severest years of this depression, 1931 and 1932, when the cotton crops returned practically nothing after paying out-of-pocket costs. For the South as a whole, there were about 160,000 more farm owner-operators in 1935 than in 1930 and about 40,000 more tenants.

Dr. Cox's estimates of losses to other groups due to reduced volume are even less reliable than his estimate of the total reduction in production upon which they are apparently based. In the first place, the volume of business "lost" cannot be determined unless we know what farmers would have done without the 1933-34-35 programs. Secondly, he does not take into account losses that certainly would have resulted if carryover had been allowed to pile up even higher and perpetuate a low price structure in the South for cotton, for land, for wages and other services.

Dr. Cox has attempted to do in his paper "The AAA, the Cotton Growers, and the Agricultural Problem" what unbiased scholars and technically trained statisticians and economists are going to do more successfully during the next few years. After 1936 there will probably be a much smaller market for hasty and exaggerated criticism of the AAA cotton program, just as there will be little need for exaggerated claims for its beneficial effects.